

Connecticut Tax News

quarterly

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A PUBLICATION OF THE CONNECTICUT DEPARTMENT OF REVENUE SERVICES

From The Commissioner Gene Gavin

Update on the 1999 Tax Filing Season and Prospects for the 2000 Legislative Session

With tax filing season well advanced and the 2000 session of the Connecticut General Assembly in full swing, there is much to cover in this limited space. However, as always, I welcome your e-mail (gene.gavin@po.state.ct.us) and promise to personally respond to all your comments and questions.

picture not
available in
PDF version

With just over one-third of the filing season already history, I am pleased to report that non-paper filing is increasing

significantly. Unlike for-profit businesses, we aren't able to give away premiums to change people's ways of doing things. However, the additional benefits of direct deposit and the fast turnaround of refunds that Telefile and electronic or PC filing offer, are enticing more and more filers to try these fast filing options. At this early date, usage of all these options are up about one-third from last year at this time.

Turning to legislative matters, this year's session of the General Assembly is scheduled to be a "short" session, with the primary



Commissioner Gavin on Personal Leave

As this issue of Connecticut Tax News goes to press, Commissioner Gene Gavin has begun a personal leave of absence. His column and other inputs had been written several weeks in advance of his leave, so we include them here.

During Commissioner Gavin's absence, Governor John G. Rowland has directed General Counsel and First Assistant Commissioner Richard D. Nicholson to fulfill the statutory responsibilities of Commissioner of Revenue Services.

Mr. Nicholson has served as General Counsel and First Assistant Commissioner since 1994. Prior to that time he was Director of the Legal Division and the Inheritance Division.

Assistant Commissioner Nicholson stated, "Under Commissioner Gavin's leadership, DRS has earned praise from taxpayers, legislators, and our colleagues in tax administration. On behalf of all DRS personnel, I pledge our commitment to continuing the excellent level of service that has distinguished this agency in the past."

TIPS for Successfully Filing a Connecticut Income Tax Return

Errors or incomplete information on a Connecticut income tax return may cause refunds to be delayed or result in bills for additional tax, penalty,

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New U.S. Government Credit Cards Accepted

On November 30, 1998, the U.S. General Services Administration (GSA) replaced the I.M.P.A.C., American Express, and Wright Express credit cards with the "GSA SmartPay" Credit Card Program. The new credit card program authorizes U.S. Government employees and qualified governmental agencies to make government purchases of tangible personal property or services, including meals and lodging, exempt from sales and use taxes by using GSA SmartPay credit cards.

The GSA SmartPay program uses four categories of cards: Fleet, Purchase, Travel, and Integrated Cards. The cards are embossed with the GSA SmartPay logo as well as "United States of America." Sales of tangible personal property or services, including sales of meals and lodging billed directly to and paid by the U.S. Government, are exempt from

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The Mission of the Connecticut Department of Revenue Services is to administer the tax laws of the State of Connecticut and collect the tax revenues in the most cost effective manner; achieve the highest level of voluntary compliance through accurate, efficient, and courteous customer services; and perform in a manner which instills public confidence in the integrity and fairness of the State's tax programs.

emphasis on adjustments to the second year of the biennial budget package approved last year. However, it will not be without some lively discussions and proposals on various tax cuts. At this time I will not venture to predict any outcomes except to say that any action taken will benefit the vast majority of Connecticut taxpayers.

DRS has proposed a variety of technical changes to existing laws that should simplify and clarify tax administration. Many of these technical changes have been suggested by tax practitioners and taxpayers. We appreciate the efforts of everyone to make our tax statutes not only easier to understand, but also easier to administer.

Two of the outstanding issues we addressed are removing the notarized affidavit requirement from any tax types that still require that function, and the expansion of the sales tax exemption for farmers so that start-up farmers can take advantage of it.

However, readers should be aware that DRS has presented to legislators two very important reports which we prepared at their request. In the December 1999, *Connecticut Tax News* (v. 11, n.5), I had indicated that we were working on the request by Speaker of the House Moira Lyons to study the ways various states are assessing corporation business tax on manufacturers in their states. Our

Commissioner
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report by the ad hoc committee was forwarded to Speaker Lyons and the Governor on January 28, 2000.

The committee proposed several options to the current three-factor basis for Connecticut corporation business tax. However, the adoption of a single-factor apportionment formula based on receipts has become part of the Governor's proposed tax package. Although DRS estimates that this could reduce state tax revenue by between 15 and 25 million dollars per year, manufacturing continues to be a major economic engine in Connecticut, providing significant employment and wages. With this tax relief, manufacturers with investments in employees and property in Connecticut will be better able to compete in their respective industries.

I want to take this opportunity to express my sincere thanks to committee members from the private sector who volunteered time from their busy schedules to assist DRS in completing this challenging report. They include: Stephen Auster, Pfizer, Inc.; Glen W. Berwick, CPA; Frank Betts, Stanadyne Corporation, representing CBIA; Joseph Kapustynski, Champion International,

representing SACIA; George Kruzynski, Pitney Bowes, Inc., representing MAC; Charles H. Lenore, Day, Berry & Howard; and Chester Malinowski, Jr., United Technologies Corporation. Also participating were Thomas Fiore of the Office of Policy and Management, and Daniel Schnobrich and Rob Wysock of the Office of Fiscal Analysis. It is this type of partnership between the private sector and state government, particularly DRS, that is making Connecticut the best location for business on the planet.

The report will soon be available on our Web site (www.drs.state.ct.us), but you may also obtain a copy of the complete report by contacting DRS. DRS was mandated by 1999 Conn. Public Acts 173, §9 to prepare a report on the Taxation of Federal Pensions. This report was prepared internally by our Legal Division staff. DRS was not asked to evaluate our tax policy or make proposals for changes, so watch for information coming from the General Assembly about this report. You may obtain copies of the report by contacting DRS.

I urge you to follow developments at the State Capitol as they progress this session. Everyone has a personal and professional stake in tax policy, and I welcome your comments.

T_N

Filing Due Dates Extended

Some Due Dates Extended Because of Holidays

If the due date for filing a Connecticut tax return falls on a Saturday, Sunday or legal holiday, the return is due on the next business day.

The following are tax filing due dates that are extended:

April 18, 2000 - 1999 Calendar Year Filers of Income Tax Returns, 1st quarter 2000 Estimated Tax Payment, 1999 Connecticut Gift Tax Return, Connecticut S Corporation Income Tax Return, and Connecticut Income Tax Return for Trusts and Estates. (The April 15th due date is extended because it falls on a Saturday and April 17th is Patriots' Day in Massachusetts. Connecticut taxpayers send federal returns to the IRS Service Center located in Andover, MA.)

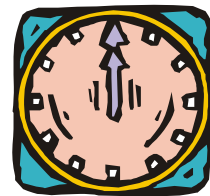
PATRIOTS' DAY



April 17, 2000

January 16, 2001 - 4th quarter 2000 Estimated Payment. (The January 15th due date is extended because January 15th falls on Martin Luther King, Jr. Day.) T_N

DRS Extended Hours For Income Tax Assistance



DRS will extend **telephone hours** to assist taxpayers with Connecticut income tax questions on the following days:

Thursday, April 6 8:00 a.m. - 7:00 p.m.

Saturday, April 8 8:30 a.m. - 12:00 p.m.

Thursday, April 13 8:00 a.m. - 7:00 p.m.

The DRS will extend both **walk-in** and **telephone** hours to assist taxpayers with Connecticut income tax questions on the following days:

Walk-in service at 25 Sigourney Street, Hartford only.

Saturday, April 15 8:30 a.m. - 12:00 p.m.

Monday, April 17 8:00 a.m. - 8:00 p.m.

Tuesday, April 18 8:00 a.m. - 8:00 p.m.

Asistencia en Español

Para asistencia en español, marque el numero seis. For the 2000 tax filing season DRS volunteer taxpayer assistants will be ready to provide income tax assistance to our Spanish-speaking population. DRS Taxpayer Services will launch this new service by adding an option to CONN-TAX. After choosing Option 0 from the main menu, Spanish-speaking taxpayers will be directed to choose Option 6, directly connecting them to a Spanish-speaking tax assistant. These tax assistants are DRS employees volunteering to help during the filing season. This program will operate only during the income tax filing season.

Tax assistance in Spanish and other languages is available at other times of the year by special arrangement. T_N

Connecticut Accepts Federal PTIN Numbers

Paid preparers may now enter their Federal Employer Identification Number, Social Security Number or Preparer's Tax Identification Number (PTIN) on Connecticut personal income tax returns.

PTIN numbers are available from the IRS as an alternative to using a Social Security Number. DRS **does not** issue its own PTINs. T_N

Credit Card Payment Option Now Available

Connecticut residents may be eligible to pay their 1999 Connecticut income tax liability by credit card. Taxpayers that filed a 1998 Connecticut income tax return and currently owe a balance, may be able to pay the amount they owe by credit card. Discover®, MasterCard®, and American Express Card® are the accepted credit cards.

Taxpayers should have their credit cards ready, and call toll-free **1-888-2PAY-TAX** (1-888-272-9829). They will be asked to enter Connecticut's code: **1777**.

A convenience fee will be charged by the credit card service provider. Taxpayers will be informed of the amount of the convenience fee during the telephone call, and may elect to cancel the transaction. T_N



Filing TIPS

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and interest. Follow these TIPS to get the return processed faster:

1. Use the pre-printed label that was sent with the Connecticut income tax booklet. Make sure the name, address, and Social Security Number are correct on the label. If there is an error, draw a line through the error and clearly print the correct information.

2. Attach legible state copies of W-2 forms. Also attach state copies of W-2G forms (gambling winnings), 1099-R forms (pensions), and any other forms showing Connecticut income tax withheld.

3. Check the correct filing status.

4. Check your math and copy all figures accurately, especially when copying figures from one place to another.

5. Sign the return. If filing a joint return, both spouses must sign the return. The paid preparer must also sign the return.

6. Attach the correct mailing label to the return envelope. One label is for refund requests or no additional tax due. The other is for payments. Refunds will be processed quicker if the label for refund requests is used. T_N

2000 Filing Season Common Errors

The DRS Processing Unit has identified the following common errors which delay Connecticut income tax refunds and increase the cost of processing Connecticut returns.

1. No filing status checked

All filers are required to check their filing status. If the filing status is

- ▶ A. ☐ Single
- ▶ B. ☐ Married filing joint return or Qualifying widow(er) with dependent child
- ▶ C. ☐ Married filing *SEPARATE* return
- ▶ D. ☐ Head of household (with qualifying person)

not checked, DRS attempts to identify the correct filing status from the information included on the return or contacts the taxpayer to obtain the information.

2. Not properly stapling forms and statements together

All W-2 forms and any 1099 forms showing Connecticut income tax withheld should be stapled to the left edge of the front of the return and should

not block the name and address section. If the return is more than one page, all pages should be stapled together in the top left corner.

3. Not including all amounts of income and Connecticut withholding from W-2 and 1099 forms

Returns are checked for accuracy and those not properly calculated are rechecked and, if possible, corrected. T_N

Amending a 1999 Connecticut Income Tax Return

Complete and file **Form CT-1040X, Connecticut Amended Income Tax Return**, to correct an error or omission on a previously filed Connecticut income tax return. An amended return claiming a refund of an overpayment of Connecticut income tax must be filed within three years of the original due date of the return or, if an extension of time to file had been granted by the DRS, no later than three years after the extended due date of the return.

Complete and file **Form CT-1040X** if an amended federal income tax return is filed, and the amendment

affects the Connecticut income tax liability. File **Form CT-1040X** no later than 90 days after the date of filing the amended federal income tax return.

Complete and file **Form CT-1040X** if the taxpayer claimed credit on the Connecticut income tax return for income taxes paid to another jurisdiction or alternative minimum taxes paid to another jurisdiction, and the amount of tax the taxpayer is finally required to pay to that jurisdiction is different than the amount used to determine the credit. Complete and file **Form CT-1040X** no later than 90 days after the date of filing an amended income tax return with that jurisdiction.

Complete and file **Form CT-1040X** if the taxpayer claimed credit on the Connecticut income tax return for income taxes paid to another jurisdiction or alternative minimum taxes paid to another jurisdiction, and as a result of the income tax return with that jurisdiction being changed or corrected by tax officials or other competent authority of that jurisdiction, the amount of tax that the taxpayer is finally required to pay to that jurisdiction is different than the amount used to determine the credit. File **Form CT-1040X** no later than 90 days after the final determination of such amount.

You may not amend a Connecticut income tax return to change or cancel contributions made to designated funds or overpayments applied to next year's estimated income tax.

Failure to amend the return, if required to do so, can result in penalty assessments.

Form CT-1040X is year specific. Use the correct version for the taxable year that you are amending.

Amending Telefile

If the taxpayer made a mistake when entering information into the keypad from Items 3 through 10 of the Telefile tax return, the taxpayer should hang up and start again. The taxpayer's figures will be erased. The taxpayer may call back and start with Item 1 again.

1999 Connecticut



Telefile

Taxpayers realizing that a mistake was made after entering their PIN signature from Item 18 into the keypad, must file the paper return, **Form CT-1040X, Amended Connecticut Income Tax Return**. ^{T_N}

Understanding Connecticut Taxes Clearly

Coming Soon to a Town Near You!

DRS is pleased to offer **Understanding Connecticut Taxes Clearly**, a free program designed to provide a broad overview of Connecticut tax requirements for new and existing small businesses.

Openings remain for Spring 2000 classes. Register now to attend. Classes are limited to 40 participants and preregistration is required. Programs are held from 6:30 p.m. to 9:00 p.m.

SPRING 2000 SCHEDULE

March 2	March 9
Norwich	Waterbury
May 4	May 11
Enfield	Norwalk

Make reservations to attend a **UC Taxes Clearly** seminar by contacting DRS:

TELEPHONE

860-297-5962

(from anywhere) or

1-800-382-9463

(toll-free within Connecticut)

Weekdays 8:00 a.m. to 5:00 p.m.

INTERNET

www.drs.state.ct.us

1999 Connecticut Property Tax Credit

Connecticut residents who paid property taxes on their primary residence and/or privately owned or leased motor vehicle to a Connecticut political subdivision are eligible for a credit of up to \$425 against their 1999 Connecticut income tax liability.

The credit is available to Connecticut taxpayers who have paid property tax bills that became due and were paid during 1999. This includes any installment payments made during 1999 for installments due in 1999 and any installments that were prepaid during 1999 for installments due in 2000. For example, if the second installment of a 1998 property tax bill was due January, 1999, and

was paid on January 1, 1999, that payment may be included with any payments of 1999 property tax bills that were due during 1999 when calculating the property tax credit for 1999.

Taxpayers who paid more than \$100 in qualifying property tax payments, may be subject to a limitation based on Connecticut adjusted gross income.

For more information on the property tax credit, see the instructions to **Form CT-1040, Form CT-1040EZ** or *Connecticut Telefile Return*.

If you need help calculating your credit, visit our Property Tax Calculator on the DRS Web site. It will do the math for you. ^{T_N}

Who Must Make Estimated Connecticut Income Tax Payments For 2000

A taxpayer must make estimated income tax payments for the 2000 taxable year if the Connecticut income tax reported on the return (after tax credits), minus Connecticut tax withheld, is more than \$500, and the taxpayer expects the amount of Connecticut income tax withheld to be less than the required annual payment. A taxpayer's required annual payment is the lesser of 90% of the income tax shown on the 2000 Connecticut income tax return or 100% of the income tax shown on the 1999 Connecticut income tax return, if the taxpayer filed a 1999 Connecticut income tax return that covered a 12-month period.

Some examples of income which may require a taxpayer to make estimated payments include:

- self-employment
- pension and annuity
- capital gains
- interest and dividends
- gambling winnings
- rental income
- unemployment compensation
- federally taxable Social Security

- any other taxable income from which no Connecticut tax was withheld.

See **Informational Publication 99(35)**, *Estimated Connecticut Income Taxes*, for more information.

Estimated Income Tax Form

Use **Form CT-1040ES**, 2000 *Estimated Connecticut Income Tax Payment Coupon for Individuals*, to make quarterly estimated payments of Connecticut income tax for the 2000 taxable year.

Form CT-1040ES will be mailed to any taxpayer who made Connecticut estimated tax payments in 1999. If the taxpayer did not make estimated payments previously, use **Form CT-1040ES**, included in the Connecticut income tax booklet. Taxpayers who file this form will be sent additional coupons from DRS.

How to Review and Change Income Tax Withholding

If a taxpayer's income tax return shows tax due, DRS suggests that the taxpayer review the latest **Form CT-W4**, *Employee Withholding or Exemption Certificate*, on file with

the employer. It may be necessary for the taxpayer to correct the filing status selected or request an additional amount of Connecticut withholding. If the taxpayer owes additional tax because of another source of income, for example, the taxpayer may request additional Connecticut withholding by completing a new **Form CT-W4**. The taxpayer should check to make sure that the additional amount will cover the tax on the other income.

A taxpayer who is a resident and receives a pension or annuity may use **Form CT-W4P**, 2000 *Withholding Certificate for Pension or Annuity Payments*, to request Connecticut withholding from such payments. Retired Civil Service employees should contact the United States Office of Personnel Management to request or change Connecticut withholding.

See **Informational Publication 00(1)**, *Is My Connecticut Withholding Correct?*, for more information on changing the amount of Connecticut withholding. **T_N**

Federal/State Electronic Filing Program (E-file)

The Federal/State Electronic Filing program (E-file) is a "one-stop" filing program between the Internal Revenue Service (IRS) and the Connecticut Department of Revenue Services (DRS). E-file enables a taxpayer to electronically file both federal and state income tax returns in one single transmission using a computer instead of having to manually prepare the paper returns and send them through the mail. Both returns are transmitted to the IRS, which in turn, acknowledges acceptance of the federal return and receipt of the state data. The IRS then makes the state return data available for retrieval by authorized DRS personnel.

How to Electronically File Federal and State Returns?

A taxpayer can choose to have a tax professional electronically file a return or may file from a personal computer

Benefits of E-file

Fast Refunds. Most refunds are issued within four days of acknowledgment.

Direct Deposit. Optional direct deposit of refunds is available.

Acknowledgment of Returns. Confirmation that returns have been received is by electronic acknowledgment system. When DRS receives the electronic return, an additional confirmation is sent.

Accuracy. Electronically filed tax returns are received virtually error-free (12% of all paper returns have some sort of error).

Convenience. The "one stop shop" tax filing allows taxpayers to file both their Federal and Connecticut tax returns in one transmission.

using commercially available software packages or by visiting a developer's Internet Site.

Paying Tax Due

If the taxpayer owes money, there are now two payment options. Payments may be made by mail, submitted with **Form CT-1040V**, supplied by the software or tax professional or by credit card (see, *Credit Card Payment Option Now Available*, on Page 3). A convenience fee is charged by the credit card service when using the credit card service provider. All payments must be submitted by April 18, 2000, to avoid penalty and interest charges.

Is Electronic Filing New?

No. Electronic Filing has been proven and tested by millions of taxpayers. Entering our seventh filing season, DRS has found once taxpayers try E-file they continue to use it. **T_N**

Calculating Sales Tax for Goods and Services With a Reduced Tax Rate

Most taxable sales in Connecticut are subject to 6% sales tax. However, certain goods and services are taxed at a lower rate. To properly report these sales, a taxpayer must use the adjustment lines on the back of **Form OS-114, Sales and Use Taxes Return**, to properly calculate the amount of tax due.

There are four types of sales that are taxable at a reduced rate:

1. Sales, use, storage, and consumption in this state of materials, tools, fuels, and machinery and equipment to be used primarily in manufacturing. Effective July 1, 1996, the tax rate for sales, use, storage and consumption in this state of materials, tools, fuels, and machinery and equipment to be used primarily in manufacturing, as described in the Manufacturing

Recovery Act of 1992, is 3%. To properly report these sales, multiply the applicable gross receipts by 50% (.50). The total is entered on **Form OS-114**, Line 71.

2. Computer and data processing services. The tax on computer and data processing services is being phased out. If a taxpayer sells computer and data processing services on or after July 1, 1999, but before July 1, 2000, the gross receipts are subject to 3% sales and use tax. To properly report these sales multiply the applicable gross receipts by 50% (.50). The total is entered on **Form OS-114**, Line 74.

3. Renovation and repair services to residential property. The tax on paving, painting or staining, wallpapering, roofing, siding, and exterior sheet metal work to other than industrial, commercial or income-producing real property

under Conn. Gen. Stat.

§12-407(2)(i)(BB) is being phased out. If a taxpayer sells paving, painting or staining, wallpapering, roofing, siding, and exterior sheet metal work to other than industrial, commercial or income-producing real property on or after July 1, 1999, but before July 1, 2000, the gross receipts are subject to 4% sales and use tax. To properly report these sales, multiply the applicable gross receipts by 33.33% (.3333). The total is entered on **Form OS-114**, Line 75.

4. Patient care services by hospitals. Effective July 1, 1999, the tax rate for patient care services under Conn. Gen. Stat. §12-407(2)(i)(FF) is 5.75%. To properly report these sales, multiply the applicable gross receipts by 4.17% (.0417). The total is entered on **Form OS-114**, Line 76. ^{T_N}

EXAMPLE: A painter is contracted to paint an owner-occupied residential property. The paint is supplied by the owner. The painter charges \$1,000 for her services and adds 4% Connecticut sales tax to the bill. If this was the only sale for the period, the return would be completed as follows: (Line references used for this example are actual lines used when completing the **OS-114, Sales And Use Tax Return**.)

Line 3	Gross receipts from labor and services	\$ 1,000.00
Line 7	Total	\$ 1,000.00
Line 75	Renovation and repair services to residential property (\$1,000 X .3333)	\$ 333.33
Line 8	Total Deductions	\$ 333.33
Line 9	Balance subject to tax (subtract Line 8 from Line 7)	\$ 666.67
Line 10	Gross amount of tax due (multiply Line 9 by .06)	\$ 40.00

Exempt Purchases of Motor Vehicles or Vessels by Nonresidents

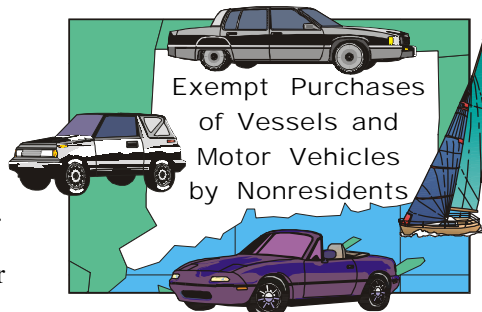
Vessels and motor vehicles purchased from Connecticut dealers by nonresidents who maintain no permanent place of abode in Connecticut and who will not register the vehicles or vessels in Connecticut are exempt from Connecticut sales tax (Conn. Gen. Stat. §12-412(60), as amended by 1999 Conn. Pub. Acts 173, §21).

CERT-125, Sales and Use Tax Exemption for a Motor Vehicle or Vessel Purchased by a Nonresident of Connecticut (Rev. 03/00), has been revised and must be completed by dealers for the exemption to be claimed.

In an effort to encourage the proper use of **CERT-125**, the revised certificate requires dealers to acknowledge that they have explained the meaning of "permanent place of abode" to their customers. For an individual, a permanent place

of abode in Connecticut includes **ANY** dwelling permanently maintained by the individual or his or her spouse, whether or not owned or leased by the individual, even if the individual does not permanently reside there. **CERT-125** may **never** be used when a customer maintains a permanent place of abode in Connecticut.

All motor vehicle and vessel dealers should immediately begin to use the **CERT-125** (Rev. 03/00), and discard old versions of the certificate. Vessel dealers may not use CERT-107 for sales made on or after July 1, 1999. **CERT-125** is available on the DRS Web site. ^{T_N}



Commissioner Gavin Unveils Taxpayer Privacy Measures

Commissioner Gene Gavin recently announced several measures that the Department of Revenue Services (DRS) is implementing to address concerns of taxpayers regarding their Social Security numbers.

"Taxpayers have expressed legitimate concerns about the handling of their Social Security numbers," said Gavin. "I am personally upset that people feel their privacy is at risk, and have committed the necessary resources of DRS to develop immediate steps to review and address this issue."

Among the steps that DRS is taking immediately is to ensure that next year's Telefile tax return does not include the preprinted Social Security number.

Gavin has established the Office of Privacy Advocate, appointing a "privacy czar" to head its operations. A special direct Privacy Hot Line, 860-297-5797, is now available for taxpayers who wish to contact us. Calls may also be directed to the DRS toll-free phone number, 1-800-382-9463, which is available to taxpayers calling from anywhere in Connecticut. Taxpayer Services representatives will take information directly or, if necessary, refer the caller to the Office of the Privacy Advocate.

Both offices will register comments and suggestions for improvements, as well as send taxpayers traditional paper tax returns, if they prefer to use that method of filing instead of Telefile.

Jim Norton, a senior DRS employee who has extensive experience in security and confidentiality procedures, has been appointed as the Privacy Advocate. In addition to addressing concerns of taxpayers, he will be responsible for reviewing existing DRS practices regarding taxpayer privacy. DRS will be polling tax agencies of all other states and the Internal Revenue Service, to measure the current practices of DRS against the "best practices" of other tax agencies. The privacy advocate may be e-mailed directly at Jim.Norton@po.state.ct.us.

"Connecticut is proud of its record of being a leader in tax administration," Gavin added. "I am certain that we will find that we are once again leading a change in the basic practices that are followed by every other tax agency in the country." T_N

DRS Privacy Advocate

Jim Norton

Jim.Norton@po.state.ct.us

Privacy Hot Line 860-297-5797

Beware Of Sales and Use Tax Refund Claims

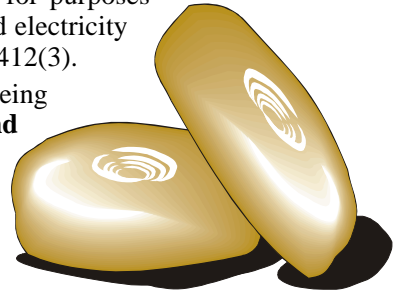
Some tax practitioners are offering to obtain refunds of sales and use taxes paid by certain businesses on electricity and natural gas, claiming that the businesses qualify as manufacturers or fabricators for purposes of the exemptions for gas and electricity under Conn. Gen. Stat. §12-412(3).

Businesses most frequently being approached include **donut and bagel shops**. Baking donuts or bagels *on a factory basis* may sometimes qualify as manufacturing. However, retail donut and bagel shops that bake on their premises almost

never qualify as manufacturers or fabricators, and are **not** entitled to the gas and electricity exemptions.

To qualify as a manufacturer or fabricator in Connecticut, a business must meet stringent tests regarding floor space, employees, wages and salaries, operating costs, and sales revenues in connection with the manufacturing or fabricating activity. Even if a business does qualify as a manufacturer or fabricator, there are additional requirements for the gas and electricity sales and use tax exemptions.

If a business that is not qualified for the tax exemption obtains a sales and use tax refund from a gas or electric utility, DRS will assess the business for the amount of the tax refund plus interest and penalty. The same will apply to any unpaid tax that may be due because the business stopped paying sales and use tax on its gas or electricity. The fact that the utility was persuaded to refund the tax to the business will not relieve the business of liability for the tax, if the business does not qualify for the exemption. T_N



FROM THE COURTS

DRS Appeals Andersen Consulting, LLP v. Gavin Decision

The Department of Revenue Services has filed an appeal in **Andersen Consulting, LLP v. Gavin, Sup. Ct. Tax Sess. CV 98 0492505S (Feb. 3, 2000)**.

During the pendency of the appeal, the Department will continue to treat sales of canned software as sales of tangible personal property subject to sales and use tax and will treat the design, development, implementation or conversion of custom or customized software as taxable computer and data processing services as enumerated in Conn. Gen. Stat. §12-407(2)(i)(A).

Therefore retailers should continue to collect and remit Connecticut sales and use tax on all sales of canned software and computer and data processing services, and purchasers who have not paid sales tax should continue to remit use tax on such purchases. T_N



Connecticut sales and use taxes. Sales to federal employees (rather than to the U.S. Government itself) are subject to sales and use tax, even if the U.S. Government reimburses the employees for all or a portion of their purchases.

Effective February 3, 2000, DRS no longer requires federal employees to provide retailers with the *Governmental Agency Exemption Certificate* when using the GSA SmartPay Cards for tax-exempt purchases. In addition, U.S.



Government agencies are not required to obtain pre-approval from DRS for meals and lodging when using the GSA SmartPay credit cards.

Purchases with Fleet Cards and Purchase Cards are tax exempt because they are billed directly to and paid by the U.S. Government. Fleet Cards are used to purchase fuel and repair services or other items related to motor vehicles, boats, and airplanes. Purchase

U.S. Government Credit Cards from page 1

Cards are used to purchase tangible personal property.

Retailers may accept Fleet Cards and Purchase Cards with proper identification from the user, as evidence that the purchase is made by the United States, and is exempt from sales and use taxes.

Purchases made with Travel Cards and Integrated Cards are not necessarily tax-exempt because some sales using these cards are billed to and paid by federal employees rather than by the U.S. Government. Travel Cards are used to purchase airfare, meals, and lodging.

Integrated Cards are used for purchasing goods and services associated with the Fleet, Purchase, and Travel Cards.

The numbers embossed on Travel Cards and Integrated Cards assist retailers in determining whether travel and travel-related purchases using these cards are subject to Connecticut sales and use taxes. For more information, see **Policy Statement 2000(1.1), Retailer's Acceptance of U.S. Government "GSA SmartPay" Credit Card for Purchases Exempt Under Conn. Gen. Stat. §12-412(1).**

To verify that an authorized person is using GSA SmartPay cards, a retailer must require identification which establishes the person's identity and status as a U.S. Government employee, such as an employee photo identification card. The retailer must note the employee's identification number and agency on the merchant copy

of the sales receipt that the retailer retains for its records.

If a retailer has reason to believe that a card is being used to make any purchase not billed directly to and paid by the U.S. Government, or that for any other reason does not qualify for exemption under Conn. Gen. Stat. §12-412(1), the retailer must charge sales and use taxes on the purchase. The credit card holder can then request a refund from DRS for the taxes by



submitting evidence that the purchase was paid directly by the U.S. Government. The purchaser should follow the procedures in **Policy Statement 98(5), Sales and Use Tax Refund Policy.**

Retailers failing to follow the verification guidelines set by DRS for authorized GSA SmartPay card users may be held liable for sales and use taxes on purchases in question.

For more information, see **PS 2000(1.1).** T_N



Due Dates Unchanged for Filing Informational Returns With DRS

Pursuant to the *Internal Revenue Service Restructuring and Reform Act of 1998*, the federal due dates for filing certain informational returns are extended by one month for returns that are filed electronically.

In light of these changes, questions have arisen concerning the impact of

such changes on the due dates for informational returns required to be filed with DRS.

The due dates for filing informational returns with DRS are not affected by the changes made by the Internal Revenue Service Restructuring and Reform

Act of 1998.

For more information, see **Announcement 2000(1), Due Dates Unchanged for Filing Informational Returns with the Department of Revenue Services.** T_N

Connecticut Tax Calendar

If the due date falls on a Saturday, Sunday or legal holiday, the next business day is the due date.

March

- 1** Corporation Business Tax Return for year ending November 1999
- 15** S Corporation Business Tax Return for year ending November 1999
Connecticut Income Tax Return for Individuals, Trusts and Estates for year ending November 1999
Connecticut Group Income Tax Return for year ending November 1999
Connecticut Composite Income Tax Return for year ending November 1999
Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending December 2000
Form CT-1120 ESB for year ending September 2000
Form CT-1120 ESC for year ending June 2000
Form CT-1120 ESD for year ending March 2000
Unrelated Business Tax Return
Insurance Companies Annual Tax Return
Health Care Centers Annual Tax Return
- 25** Motor Vehicle Fuels Tax Return
- 31** Admissions and Dues Tax Return
Room Occupancy Tax Return — Monthly Filers
Sales and Use Taxes Return — Monthly Filers

APRIL

- 1** Community Antenna TV Systems Return
Telegraph and Cable Companies
Corporation Business Tax Return for year ending December 1999
Telegraph and Cable Companies Return
- 15** Estimated Connecticut Income Tax Payment for Individuals, Trusts, and Estates, 1st Installment 2000
Estimated Connecticut Group Income Tax Payment 1st Installment 2000
Estimated Connecticut Composite Income Tax Payment 1st Installment 2000
Connecticut Income Tax Return
Application for Extension of Time to File
Connecticut Income Tax Return for Individuals
Connecticut Partnership Income Tax Return
Connecticut S Corporation Information and Composite Income Tax Return
Connecticut Group Income Tax Return
Connecticut Gift Tax Return
Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending January 2001
Form CT-1120 ESB for year ending October 2000
Form CT-1120 ESC for year ending July 2000
Form CT-1120 ESD for year ending April 2000
Individual Use Tax Return
Unrelated Business Income Tax Return (Domestic Trusts)
- 25** Motor Vehicle Fuels Tax Return
- 30** Admissions and Dues Tax Return

APRIL 30 (continued)

- Connecticut Quarterly Reconciliation of Withholding
Dry Cleaning Surcharge Return
Hospital Gross Earnings Tax Return
Motor Carrier Road Tax Return
Petroleum Companies Gross Earnings Tax Return
Room Occupancy Tax Return - Monthly Filers
Sales and Use Taxes Return - Monthly and Quarterly Filers
Hazardous Waste Tax Return
Solid Waste Tax Return
Gas, Electric & Steam Companies Gross earnings Tax Return
Seed Oyster Tax Return

MAY

- 1** Corporation Business Tax Return for year ending January 2000
- 15** Connecticut Unrelated Business Income Tax Return (corporations)
Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending February 2001
Form CT-1120 ESB for year ending November 2000
Form CT-1120 ESC for year ending August 2000
Form CT-1120 ESD for year ending May 2000
- 25** Motor Vehicle Fuels Tax Return
- 31** Admissions and Dues Tax Return
Room Occupancy Tax Return - Monthly Filers
Sales and Use Taxes Return - Monthly Filers



JUNE

- 1** Corporation Business Tax Return for year ending February 2000
- 15** Estimated Connecticut Income Tax Payment for Individuals, Trusts and Estates, 2nd Installment 2000
Estimated Connecticut Group Income Tax Payment 2nd Installment 2000
Estimated Connecticut Composite Income Tax Payment 2nd Installment 2000
Estimated Corporation Business Tax Payment
Form CT-1120 ESA for year ending March 2001
Form CT-1120 ESB for year ending December 2000
Form CT-1120 ESC for year ending September 2000
Form CT-1120 ESD for year ending June 2000
Estimated Insurance Premiums Tax Payment, 2nd Installment
Unrelated Business Income Tax Return (Foreign Trusts)
- 25** Motor Vehicle Fuels Tax Return
- 30** Admissions and Dues Tax Return
Room Occupancy Tax Return - Monthly Filers
Sales and Use Taxes Return - Monthly Filers

RULINGS OF THE CONNECTICUT DEPARTMENT OF REVENUE SERVICES



The following rulings, summarized below, were recently released by the Department's Legal Division. To obtain a complete text of any ruling, visit the DRS Web site (www.drs.state.ct.us), or send your name, mailing address, and the number of the ruling or rulings to: **Department of Revenue Services, Forms Unit, 25 Sigourney Street, Hartford, CT 06106-5032**

RULING NO. 99-7

REAL ESTATE CONVEYANCE TAX

DRS recently issued a ruling concerning a general partnership ("the Original Partnership") with three equal partners ("the Partners"). The Original Partnership owns, among other things, three apartment complexes. Due to the increasing value of the Original Partnership's assets, an increasingly difficult insurance market, and the current litigious environment, the Partners seek to insulate two of the apartment complexes owned by the Original Partnership from the other apartment complex's potential liabilities and from the potential liabilities of other properties of the Original Partnership. Accordingly, the Partners will divide the Original Partnership into three general partnerships: the Original Partnership and two newly created partnerships ("the Newly Created Partnerships"). The Original Partnership will transfer one apartment complex to each of the Newly Created Partnerships, and retain one apartment complex. The Partners will continue to be the three equal partners of the Original Partnership and of each of the Newly Created Partnerships. The Original Partnership and the Newly Created Partnerships will qualify as continuing partnerships pursuant to 26 U.S.C. §708 and the regulations thereunder.

At issue in this ruling is whether the deeds transferring realty from the Original Partnership to each of the two Newly Created Partnerships will be subject to real estate conveyance tax, where the three equal partners of the Original Partnership will be the sole partners of each of the Newly Created Partnerships and where there will be no change in any of the Partners' ownership interests or in any of the Partners' share of the partnership liabilities.

The DRS ruling is that, where the Partners in the two Newly Created Partnerships will hold more than a 50% interest in the capital and profits of the Original Partnership, the two Newly Created Partnerships are considered to be continuing partnerships under 26 U.S.C. §708, and no real estate conveyance tax will be imposed on the deeds transferring realty from the Original Partnership to the Newly Created Partnerships.

LEGAL DIVISION

December 17, 1999

RULING NO. 2000-1

SALES AND USE TAXES

CLOTHING COSTING LESS THAN FIFTY DOLLARS SAFETY APPAREL

DRS recently issued a ruling concerning a company doing business in Connecticut (the "Company") that rents garments to businesses. Most of these garments are employee uniforms or similar items worn by the employees of the Company's customers. Some of the garments, such as coveralls, are worn in place of street clothes. Other garments, such as counter coats, blazers, smocks and items called "lab coats," are worn over the employees' clothing. A "lab coat" rented by the Company is a style of garment, varying in length, that is similar to a smock or jacket, and may be worn in a variety of work settings. The garments the Company rents, including the "lab coats," primarily serve to identify employees as such or to protect the wearer or the wearer's clothing from soil or stain.

The Company does not rent any garments that are specially treated to be flame or acid resistant or that contain special protective materials. Most of the garments are made from untreated cotton or cotton/synthetic blends. They are not designed to protect the wearer from bodily harm or injury.

The Company usually provides a supply of garments to its customers at regular intervals of one or two weeks. After the garments are used, the Company picks up the garments and launders them. The rental charge associated with each item of clothing is less than fifty dollars.

At issue in this ruling is whether the garments the Company rents, including the items called "lab coats," are exempt from sales and use taxes under Conn. Gen. Stat. §12-412(47) and Conn. Agencies Regs. §12-426-30 as articles of clothing costing less than fifty dollars each.

The DRS ruling is that the garments the Company rents, including the items called "lab coats," are exempt from sales and use taxes under Conn. Gen. Stat. §12-412(47) and Conn. Agencies Regs. §12-426-30 as articles of clothing costing less than fifty dollars each. The lab coats the Company rents are employee uniforms or ordinary clothing. They may protect the wearer or the wearer's clothing from soil or stain, but they are not "protective" clothing within the meaning of the regulation. If the lab coats were designed to protect the employees from bodily harm or injury rather than to function as employee uniforms or ordinary clothing, they would be exempt as safety apparel under Conn. Gen. Stat. §12-412(91), regardless of their cost.

LEGAL DIVISION

January 27, 2000

RULING NO. 2000-2

SALES AND USE TAXES

PATHOLOGY PROFICIENCY TESTING SERVICES USE TAX ON MATERIALS

DRS recently issued a ruling concerning an out-of-state company (the "Company") that is an organization consisting of pathologists. The Company provides "proficiency testing" of Connecticut pathology laboratories. Under 42 U.S.C. §263a, the United States Department of Health and Human Services, or another organization designated by the federal government, must periodically accredit every pathology laboratory in the United States. The Company is one of the organizations designated by the federal government to provide such accreditation.

In order to obtain accreditation, a pathology laboratory must participate in a proficiency testing program. The Company charges the laboratories to participate in its program. In conducting its proficiency testing program, the Company transfers testing materials (specimens) into Connecticut by common carrier. The composition of the testing materials is unknown to the laboratories. The laboratories analyze the materials and report their findings to the Company for processing and evaluation.

The Company purchases testing materials from various retailers and makes no use of them other than providing them to laboratories for analysis. The laboratories dispose of the materials when the analysis is completed.

At issue in this ruling is whether the Company's "proficiency testing" is a taxable service enumerated in Conn. Gen. Stat. §12-407(2)(i); and whether the Company is subject to use tax under Conn. Gen. Stat. §12-411 for its purchases of testing materials shipped to Connecticut laboratories as part of its services.

The DRS ruling is that the Company's proficiency testing is not subject to sales and use taxes under Conn. Gen. Stat. §12-407(2)(i). However, the Company is subject to Connecticut use tax on its purchases of testing materials it uses in providing the services to its Connecticut service recipients.

LEGAL DIVISION

Issued February 2, 2000

DRS Tax Product Update

DRS recently issued the following tax products. DRS forms and publications are available any hour of the day, seven days a week, by visiting the **DRS Web site** at www.drs.state.ct.us or by calling **DRS TaxFax** at **860-297-5698** from the handset attached to your fax machine.

Forms and publications can be ordered by **E-mail** at ctforms@po.state.ct.us, or by calling **CONN-TAX**, the DRS information line. Call **1-800-382-9463** (toll-free from within Connecticut) and select **Option 2** or **860-297-4753** (from anywhere) 24 hours a day, to order forms and publications.

INFORMATIONAL PUBLICATIONS

- IP 2000(1)**, Connecticut Income Tax Withholding Requirements for Connecticut Employees, Is My Withholding Correct?
- IP 2000(2)**, Numerical Index to Rulings and Administrative Pronouncements as Affected, If At All, by Later-Issued Rulings and Pronouncements
- IP 2000(3)**, Topical Index to Rulings and Administrative Pronouncements Covering Sales and Use Taxes
- IP 2000(4)**, Topical Index to Rulings and Administrative Pronouncements Covering Miscellaneous Taxes and Administrative Topics
- IP 2000(5)**, Topical Index to Rulings and Administrative Pronouncements Covering Income Tax
- IP 2000(6)**, Topical Index to Rulings and Administrative Pronouncements Covering Corporation Business Tax

- IP 99(2.1)**, Connecticut Tax Tips for Senior Citizens
- IP 99(3.2)**, Personal Taxes
- IP 99(12.1)**, Calculating Annualized Corporation Business Tax Installments and Worksheet CT-1120 AE
- IP 99(13.1)**, Calculating Annualized Corporation Business Tax Installments for S Corporations and Worksheet CT-1120 AE
- IP 99(25)**, 1999 Connecticut Magnetic Media Filing Requirements for Federal Forms 1099-MISC, 1099-R, 1099-S and W-2G (with addendum)
- IP 99(33)**, A Guide to Calculating Your Annualized Estimated Income Tax Installments and Worksheets CT-1040 AES
- IP 99(35)**, Estimated Connecticut Income Taxes
- IP 99(36)**, State of Connecticut IFTA Manual - International Fuel Tax Agreement

- IP 99(37)**, Bringing or Importing Alcoholic Beverages in Connecticut

SPECIAL NOTICES

- SN 99(11.1)**, 1999 New York State Legislation Affecting The Connecticut/New York Reciprocal Tax Program

POLICY STATEMENTS

- PS 2000(1.1)**, Retailer's Acceptance of U.S. Government "GSA SmartPay" Credit Card for Purchases Exempt under Conn. Gen. Stat. §12-412(1)

CERTIFICATES

- CERT-125**, Sales and Use Tax Exemption for a Motor Vehicle or Vessel Purchased by a Nonresident of Connecticut
- CERT-133**, Contractor's Exempt Purchase Certificate for a Renovation Contract with a Direct Payment Permit Holder

Special Alert for Practitioners and Software Companies

The Following DRS forms and publications have been corrected.

Form CT-1120RC (12/99)

1999 **Form CT-1120RC** has been corrected and reissued to correct language on Page 2, Part II, Column E.

Form CT-1120I (12/99)

Form CT-1120I has been corrected to change instructions on Page 2, Part V - Computation of Interest. Under the paragraph heading 'CT-1120 or CT-990T Annualized Filers' the line number references to Line 16 have been changed to Line 15.

Under the paragraph heading 'CT-1120S Annualized Filers' the line number references to Line 20 have been changed to Line 19.

Form CT-1041 (12/99)

The instructions in the **1999 CT-1041 Booklet** have been corrected to change instructions on Page 23, Line 4, i. Line 4, i was changed from "Total (Subtract Line h from Line c and enter the result on Schedule CT-1041FA, Part 1, Line 6)." to "Total (Subtract Line h from Line c and enter the result on Schedule CT-1041 FA, Part 1, Line 4)."

Special Alert for Filers of Forms CT-1040EZ Telefile, CT-1040EZ, CT-1040 or CT-1040NR/PY Who Received Unemployment Compensation in 1999

The instructions to 1999 Forms CT-1040EZ Telefile, CT-1040EZ, CT-1040, and CT-1040NR/PY contain an incorrect reference for Connecticut income tax withholding on Form UC-1099G, Statement of Unemployment Compensation Payments for Tax Year 1999. The instructions for **Form CT-1040EZ Telefile**, Line 7, **Form CT-1040EZ**, Line 9, **Form CT-1040**, Line 17 and **Form CT-1040NR/PY**, Line 19 should refer taxpayers to Form UC-1099G, Box 5 (instead of Box 4) for the amount of Connecticut income tax withheld. The amount in Box 4 is the amount of federal income tax withheld. Taxpayers who telefiled their Connecticut income tax return or filed Forms CT-1040EZ, CT-1040 or CT-1040NR/PY and entered the amount from Form UC-1099G, Box 4 must file 1999 **Form CT-1040X**, Amended Connecticut

Income Tax Return and Instructions, to receive proper credit for Connecticut income tax withholding. **Form CT-1040X** may only be filed using a paper format, which may be obtained by calling the Connecticut Department of Revenue Services at 1-800-382-9463 (toll-free from within Connecticut) or 1-860-297-5962 (from anywhere). It may also be downloaded directly from the DRS Web site at www.drs.state.ct.us.

INFORMATIONAL PUBLICATION 99(19), Building Contractors' Guide to Sales and Use Taxes

The following change has been made on Page 59 in the black box on the top right hand side of the page with the heading "Example 2." "No resale certificates are issued by the general contractor to subcontractors for taxable services." On Page 67 in the black box on the top right hand side of the page with the heading "Example 4." "No resale certificates are issued by the general contractor to subcontractors for taxable services." T_N

For Tax Forms, Publications or Personal Assistance

- Visit the DRS Web site: www.drs.state.ct.us



- Call CONN-TAX at 1-800-382-9463 (toll-free from within Connecticut) or 1-860-297-5962 (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day, seven days a week by calling 860-297-4911.

- Write to: Department of Revenue Services
Taxpayer Services Division
25 Sigourney Street
Hartford, CT 06106-5032

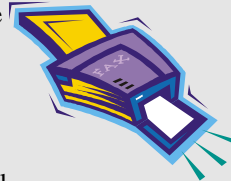


Forms and publications may be obtained 24 hours a day, seven days a week, by using any of the following resources.



Internet: Preview and download forms from the DRS Web site at www.drs.state.ct.us

DRS TaxFax: Call 860-297-5698 from the handset attached to your fax machine



E-mail: E-mail your request for forms to:
ctforms.drs@po.state.ct.us

Telephone: From a touch-tone phone 24 hours a day call 1-800-382-9463 (toll-free from within Connecticut) and select Option 2 or 860-297-4753 (from anywhere) (DRS Forms Unit).



For free assistance on forms, visit our offices from 8:00 a.m. to 5:00 p.m. (Monday through Friday). For pre-recorded directions to DRS offices, call CONN-TAX. If you require special accommodations, please advise the Department representative.

BRIDGEPORT	HAMDEN	HARTFORD	NORWICH	WATERBURY*
10 Middle St. 203-579-6251	3074 Whitney Ave., Bldg 2 203-287-8243	25 Sigourney St. 860-297-5962	2 Cliff St. 860-889-2669	91 Schrafts Dr. 203-596-4310

*This office will be moving soon. To verify the address, please call before you visit.



CONNECTICUT TAX NEWS, from the Connecticut Department of Revenue Services, is published five times a year.

This newsletter is designed to provide general information to taxpayers and tax practitioners. It is not designed to explain in depth a current Department policy affecting the liability of taxpayers. Nothing in this publication supersedes, alters, or otherwise changes the provisions of the Connecticut General Statutes, regulations, Department rulings or tax information publications.

**Gene Gavin,
Commissioner**

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